

Message Text

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SUBJECT: BANK OF AMERICA FALLS OUT WITH INSULAR BANK
- OF ASIA AND AMERICA (IBAA)

1. SUMMARY. BANK OF AMERICA HAS BECOME DISILLUSIONED WITH ITS EQUITY PARTICIPATION IN A LOCAL BANK, WHICH IT HAS FOUND IS RUN ON AN UNPROFESSIONAL AND PERSONALISTIC BASIS. BA'S ATTEMPTS TO DIVEST ITS 30 PERCENT SHARE OWNERSHIP HAVE RESULTED IN OPEN CONFLICT WITH THE PHILIPPINE SHAREHOLDERS, WHO ARE SEEKING TO BLOCK SALE TO BA'S PROPOSED PURCHASER. NEITHER PHILIPPINE BANKING NOR BA WILL PROFIT FROM THE EPISODE. END SUMMARY.

2. DURING THE CAPITAL BUILD-UP PROGRAM FOR DOMESTIC BANKS IN 1974-75, BANK OF AMERICA (BA) MADE A 30 PERCENT EQUITY INVESTMENT IN THE INSULAR BANK OF ASIA, THE NAME OF WHICH WAS THEN CHANGED TO INSULAR BANK OF ASIA AND AMERICA (IBAA). DAICHI KANGYO BANK HAS 10 PERCENT IN IBAA.

3. BA HAS BEEN UNHAPPY WITH THE TIE-UP, AND HAS BEEN
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SEARCHING FOR SEVERAL MONTHS FOR A WAY TO WITHDRAW GRACEFULLY. IT HAS APPARENTLY FAILED. PRESS ACCOUNTS IN RECENT DAYS HAVE REPORTED THE DIFFICULTIES BA HAS ENCOUNTERED IN SELLING ITS SHARES TO A GROUP HEADED BY ANDREW GOTIANUN, WHO ALSO HAS INTERESTS IN A SAVINGS BANK AND A CREDIT CORPORATION. THE OTHER SHAREHOLDERS IN IBAA FIRST OBTAINED FROM THE SECURITIES AND EXCHANGE

COMMISSION A TEMPORARY RESTRAINING ORDER ON THE SALE. THE LATEST REPORTED OBSTACLE IS A RULING BY THE CENTRAL BANK THAT GOTIANUN, BEFORE OBTAINING A RULING FROM THE SEC, MUST DIVEST SOME OF HIS HOLDINGS IN OTHER FINANCIAL INSTITUTIONS.

4. LEGAL MANEUVERING MAY CONTINUE FOR SOME TIME, BUT THE ESSENCE OF THE ISSUE SEEMS CLEAR ENOUGH: THE OTHER IBAA SHAREHOLDERS, WHO WERE FIRST OFFERED THE SHARES HELD BY BA, WERE NOT WILLING TO MEET BA'S PRICE, AND NOW SEEK TO BLOCK THE SALE TO GOTIANUN BY WHATEVER MEANS POSSIBLE. ALSO OF POSSIBLE RELEVANCE IS AN ISSUE WHICH HAS RECENTLY RESURFACED -- THAT OF NATIONAL ORIGIN IN BANKING OWNERSHIP. THE LOCAL PRESS HAS REPORTED A REVIVAL OF INTEREST IN AN OLD POLICY, ABANDONED IN 1965, WHICH PREVENTED NATURALIZED FILIPINOS FRBW GAINING CONTROL OF BANKING INSTITUTIONS. THIS WAS OF COURSE AIMED AT CHINESE-BORN FILIPINOS. GOTIANUN IS BELIEVED TO BE A NATURALIZED FILIPINO. CENTRAL BANK GOVERNOR LICAROS HAS PUBLICLY OPPOSED REINTRODUCTION OF SUCH A RESTRICTION.

5. ACCORDING TO A RELIABLE SOURCE, BA'S PROBLEMS WITH IBAA ARE STRONGLY REMINISCENT OF THOSE WHICH LED TO THE LAST YEAR'S BREAKUP BETWEEN ROYAL BANK OF CANADA AND TRADER'S ROYAL BANK; THAT IS, IBAA IS RUN ON A MUCH TOO UNPROFESSIONAL AND PERSONALISTIC BASIS TO SUIT BA. ACCORDING TO THE SOURCE, IBAA IS GUILTY OF "SELF-DEALING," LIMITED OFFICIAL USE

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WHICH INVOLVES LARGE NUMBERS OF "INSIDER LOANS" TO BANK OFFICERS OR THEIR FRIENDS, ON WHICH THERE ARE SPECIAL RATES NOT AVAILABLE TO THE AVERAGE CUSTOMER, AND ON WHICH MINIMAL REPAYMENT DISCIPLINE IS IMPOSED. COMMONLY, BANK OFFICERS HAVE A BUSINESS INTEREST IN THE LOAN EXTENDED. MANAGEMENT CONTROL OF THE BANK IS UNSATISFACTORY, AND BA EFFORTS TO CORRECT THE SITUATION HAVE BEEN UNSUCCESSFUL. IBAA PRESIDENT EDGARDO KALAW HAS BEEN UNRESPONSIVE, AND A SUCCESSION OF FOUR BA OFFICERS DETAILED TO IBAA HAVE BEEN FRUSTRATED AND INEFFECTIVE. ACCORDING TO THE SOURCE, BA IS DETERMINED NOT TO GET INVOLVED IN ANOTHER TIE-UP UNLESS IT CAN GAIN MANAGEMENT CONTROL.

6. COMMENT. GOP AUTHORITIES HAD HOPED THAT FOREIGN PARTICIPATION IN PHILIPPINE BANKS WOULD HELP CORRECT DEFICIENCIES SUCH AS BA FOUND IN IBAA. IN SOME CASES, TIE-UPS WITH LOCAL BANKS APPEAR TO BE WORKING, BUT, AS WAS THE CASE WITH THE TRADER'S ROYAL BANK, BA DID NOT HAVE MANAGEMENT CONTROL OF IBAA AND COULD NOT COPE WITH AN ENTRENCHED AND DETERMINED FILIPINO LEADERSHIP. THE EPISODE WILL NOT HELP THE IMAGE OF PHILIPPINE BANKING, OR OF BANK OF AMERICA IN THE PHILIPPINES. MURPHY

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